

Message Text

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ACTION OPIC-06

INFO OCT-01 NEA-10 EB-07 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 SP-02 CIEP-01

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FM AMEMBASSY TUNIS

TO SECSTATE WASHDC PRIORITY 4549

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E.O. 11652: N/A

TAGS: JSTSJC, BAGB, EINV, EAID, TS

SUBJECT: US/TUNISIAN JOINT COMMISSION: BACKGROUND PAPERS -
AGRIBUSINESS IN TUNIS: AN ASSESSMENT

REF: TUNIS 5750, STATE 149392

1. FOLLOWING IS PROPOSED BACKGROUND PAPER, FOR
US/TUNISIAN JOINT COMMISSION MEETINGS, ON "AGRICBUSINESS
IN TUNISIA".

SUMMARY: LOW PRODUCTIVITY, NO MARKETING PROGRAM, ANTIQUATED
PRODUCTION METHODS, AND DISJOINTED GOVERNMENT POLICIES
PREVENT TUNISIA FROM REALIZING FULL POTENTIAL AS A FOOD PRODUCER
FOR DOMESTIC AND EXPORT MARKETS. US AGRICUSINESS KNOW-HOW
IN PRIVATE SECTOR HAS A UNIQUE CAPABILITY TO HELP TUNISIA,
THEREBY GENERATING FOREIGN EXCHANGE, CREATING RURAL JOBS,
AND PROBABLY LOWERING DOMESTIC FOOD PRICES - PFOVIDED GOT
ESTABLISHES HOSPITABLE CLIMATE FOR FOREIGN AGRIBUSINESS.
EMBASSY RECOMMENDS SUPPORT FOR AGRIBUSINESS COUNCIL/OPIC/
AID INVESTMENT MISSION PROGRAM TO "TEST THE WATER" FOR
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INTEGRATED AGRIBUSINESS PROJECTS IN TUNISIA. SUGGESTS,

HOWEVER, USG TREAD CAUTIOUSLY IN HIGHLY SENSITIVE AREA OF LAND POLICY. ASSISTANCE FROM AID COULD HELP ASSURE SUCCESSFUL LAUNCHING OF AGRIBUSINESS PROGRAM. AID ROLE IN FACILITATING OTHER MEANS FOR TRANSFER OF AGRIBUSINESS TECHNOLOGY SHOULD BE CONSIDERED IF US PRIVATE INVESTMENT DOES NOT PROVE FEASIBLE.

END SUMMARY.

2. BACKGROUND: TUNISIA HISTORICALLY HAS BEEN A SIGNIFICANT EXPORTER OF AGRICULTURAL PRODUCTS BECAUSE OF FAVORABLE SOILS, WATER, AND CLIMATIC CONDITIONS IN MANY REGIONS, BECAUSE OF PROXIMITY TO EUROPEAN MARKETS, AND BECAUSE OF RELATIVELY ADVANCED AGRICULTURAL TECHNIQUES. IN 1964, THE TUNISIAN GOVERNMENT EXPROPRIATED ALL FOREIGN-OWNED AGRICULTURAL LAND - MAINLY FRENCH - AND FORBODE FOREIGN OR CORPORATE CONTROL OF SUCH LAND. AGRICULTURAL PRODUCTION AND PRODUCTIVITY DROPPED SIGNIFICANTLY IN THE LATTER HALF OF THE DECADE, DESPITE LARGE INVESTMENTS IN HYDRAULIC INFRA-STRUCTURE AND AGRICULTURAL MACHINERY.

TODAY - DESPITE PROGRESS THROUGHOUT THE EARLY 1970'S - TUNISIA STILL IS A NET IMPORTER OF FOOD; OVERALL BALANCE IN AGRICULTURAL TRADE IS A GOAL OF THE NEW FIVE YEAR PLAN. THE CURRENT USG INTEREST IN AGRIBUSINESS IN TUNISIA IS TRACEABLE TO THE VISIT BY OPIC PRESIDENT MARSHALL MAYS IN LATE 1974 AND OPIC-SPONSORED TIMAN INVESTMENT MISSION IN FEBRUARY 1975. SEVERAL AGRIBUSINESS COMPANIES ON THAT MISSION FOUND ATTRACTIVE POSSIBILITIES FOR INTEGRATED AGRIBUSINESS JOINT VENTURES. THEY WERE NOT WILLING, HOWEVER, TO INVEST UNLESS THEY WERE ALLOWED TO EXERCISE EFFECTIVE CONTROL OVER AGRICULTURAL PRODUCTION, INCLUDING LAND USE. EFFORTS TO CLARIFY GOT POLICY ON THIS POINT ELICITED A STATEMENT BY MINISTER OF AGRICULTURE HASSAN BELKHODJA, FOR THE OPIC MAGAZINE "TOPICS", BUT THIS DID NOT FULLY RESOLVE THE QUESTION.

IN JANUARY 1976 OPIC AND THE AGRIBUSINESS COUNCIL, WITH THE AGREEMENT OF THE GOT, UNDERTOOK A FEASIBILITY STUDY FOR PRIVATE AGRIBUSINESS PROJECTS IN TUNISIA. THIS STUDY ASH QMIP DEM LIMITED OFFICIAL USE

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ONSTRATED THE TECHNICAL POTENTIAL FOR SUCH PROJECTS, BUT ALSO AGAIN RAISED QUESTIONS OF GOT POLICY. OTHER US AGRIBUSINESS FIRMS HAVE REACHED SIMILAR CONCLUSIONS FOR VARIOUS CROPS AND CULTURES. DESPITE THE POTENTIAL, NO PROJECTS HAVE BEEN STARTED. IN JULY 1976, THE AGRIBUSINESS COUNCIL AND OPIC PROPOSED TO THE GOT AN EXTENSIVE INVESTMENT MISSION PROGRAM DESIGNED TO IDENTIFY SPECIFIC PROJECTS IN HIGH PRIORITY AREAS - AND IN CONJUNCTION WITH US

AGRIBUSINESS FIRMS WHICH WOULD INVEST IN AND CARRY OUT
THE PROJECTS. THE GOT ACCEPTED THIS PROPOSAL AND THE
INITIAL PROJECT IDENTIFICATION TEAM IS EXPECTED IN
TUNISIA IN NOVEMBER.

3. POTENTIAL: AGRIBUSINESS EXPERTS WHO HAVE VISITED TUNISIA
AGREE THAT, FROM A PRODUCTION STANDPOINT, TUNISIA HAS
ABUNDANT POTENTIAL TO EXPAND AGRICULTURAL PRODUCTION,
AND, EXPORTS (THE LATTER NOW AMOUNTS TO ABOUT \$100 MILLION
ANNUALLY). FOR MANY AND VARIED CROPS, SUITABLE CLIMATIC CONDITIONS
CAN BE FOUND AND WATER IS AVAILABLE FROM THE EXTENSIVE HYDRAULIC
INFRASTRUCTURE ALREADY INSTALLED OR FROM OTHER EXPLOITABLE
WATER SOURCES. UNEMPLOYMENT AND UNDEREMPLOYMENT ARE HIGH IN RURAL
AREAS, PROVIDING A POOL OF LABOR, OFTEN WITH EXPERIENCE IN
GROWING THE DESIRED CROPS. LAND CAN BE IDENTIFIED WHICH
WOULD BE MORE PRODUCTIVE IN ALTERNATIVE CROPS, BY BETTER USE OF
AVAILABLE WATER, OR BY EMPLOYING MODERN TECHNIQUES, THUS YIELDING
HIGHER INCOMES TO WORKERS AND OWNERS - WHETHER STATE, CO-
OPERATIVE, OR PRIVATE. OTHER LANDS NOT NOW IN PRODUCTION
AWAIT PROJECTS OF SUFFICIENT RETURN TO JUSTIFY THE INVESTMENT
IN INFRASTRUCTURE. PROPERLY SELECTED AND PRODUCED CROPS
WOULD FIND EAGER BUYERS IN EUROPEAN MARKETS. HOWEVER, THE POTENTIAL
IS NOT BEING REALIZED BECAUSE OF LACK OF ORGANIZATION AND
OF MODERN MARKETING AND GROWING METHODS - AND BECAUSE OF
RESTRICTIVE GOVERNMENT AGRICULTURAL AND ECONOMIC POLICIES.

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4. LAND POLICY: A KEY FACTOR FOR POTENTIAL US INVESTORS, LAND POLICY IS SUBJECT TO CONFLICTING STATEMENTS AND INTERPRETATIONS BY GOT OFFICIALS. LAND OWNERSHIP IS RULED OUT, BUT POSSIBLE RELATIONSHIPS BETWEEN FOREIGN INVESTORS AND THE LAND OWNERS SEEM TO DEPEND ON PROJECT SPECIFICS. ARRANGEMENT SIWHT LARGE PRIVATE FARMERS HOLD GREAT PROMISE; MANY ARE EAGER TO IMPROVE PRODUCTIVITY AND INCOMES THROUGH MODERN TECHNOLOGY. UNEXPLOITED SEMI-ARID OR PARTIALLY RECLAIMED STATE LAND, GIVEN INVESTMENT BY A FOREIGN PARTNER, ARE ALSO SUSCEPTIBLE TO JOINT VENTURES BUT GOT OFFICIALS INSIST THAT FULLY RECLAIMED LANDS AND IRRIGATED LANDS IN THE NORTH (MEDJERDA VALLEY) NOT BE EXPLOITED BY FOREIGN COMPANIES. HOWEVER, LAND AVAILABILITY TO PRIVATE FOREIGNERS AND THE CONDITIONS THEREOF HAVE NOT RPT NOT BEEN SPECIFICALLY TESTED WITH SOUND PROJECTS. THE STRONG CONFLICTING VIEWS HELD BY SENIOR GOVERNMENT OFFICIALS AND INFLUENTIAL PRIVATE CITIZENS PRESENT A SERIOUS PROBLEM. NEITHER USG NOR US PRIVATE COMPANIES WISH TO BE IN THE MIDDLE OF A CONFRONTATION BETWEEN THE TWO CAMPS.

5. DOMESTIC MARKET FACTORS: AGRIBUSINESS AS AN INVESTMENT FOR US COMPANIES IS BASICALLY AN EXPORT VENTURE. THE DOMESTIC TUNISIAN MARKET, WITH PROFITS IN HARD-TO-CONVERT DINARS, LIMITED OFFICIAL USE

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IS NOT ATTRACTIVE TO SUCH FOREIGN INVESTORS. IMPORT SUBSTITUTION CROPS (BEEF, LAMB, SUGAR, COTTON, TOBACCO, WHEAT) MAY BE OF INTEREST TO US FIRMS IN MANAGEMENT CONTRACT ARRANGEMENTS BUT NOT FOR INVESTMENTS.

TWO OTHER PROBLEMS ARE RAISED. CURRENTLY HIGH COSTS OF INEFFICIENT DOMESTIC PRODUCTION AND HEAVY SEASONAL DEMAND OFTEN RAISE TUNISIAN PRICES ABOVE COMPARABLE PRICES IN EUROPE, THUS DESTROYING INCENTIVES FOR INDIVIDUAL TUNISIAN LANDOWNERS TO ENTER INTO EXPORT-ORIENTED PROJECTS. THIS HINDERANCE TO AGRIBUSINESS VENTURES WITH PRIVATE FARMERS COULD BE OVERCOME IN DEALS WITH THE GOVERNMENT. ALSO A PROBLEM IS GOT POLICY THAT FOOD PRICES SHOULD BE HELD DOWN, WITH THE COROLLARY THAT EXPORTS ARE ALLOWED AS AN OUTLET FOR EXCESS DOMESTIC SUPPLY RATHER THAN ENCOURAGED IN RESPONSE TO HIGH EXPORT PRICEDU

6. GOT SUPPORT FOR AGRIBUSINESS PROGRAM: INTEGRATED AGRIBUSINESS PROJECTS ARE CONTINGENT ON A BORAD RANGE OF QUESTIONS INCLUDING DOMESTIC PRICING, FOREIGN EXCHANGE, BANK CREDIT, INVESTMENT, PROFIT TRANSFERS, AND TRANSPORTATION. AGRIBUSINESS JOINT VENTURES IN TUNISIA COULD AVOID WRANGLINGS OVER LAND POLICY BY INVOLVING ONLY PRIVATE FARMERS, BUT THESE COMPLEMENTARY QUESTIONS CANNOT ESCAPE GOVERNMENT POLICY, PARTICULARLY IN AN ECONOMY WITH CLOSELY REGULATED MONETARY AND FOREIGN TRADE

SECTORS. COORDINATION IS NECESSARY, BUT THE GOT DOES NOT AS YET HAVE A MECHANISM TO COORDINATE AND FORMULATE OVERALL POLICY TOWARD INTEGRATED AGRIBUSINESS PROJECTS. ACTIVE GOT SUPPORT, AT HIGHEST LEVELS AND IN OPERATING MINISTRIES, IS CRUCIAL TO SUCCESSFUL AGRIBUSINESS ACTIVITIES, WHETHER ON STATE OR PRIVATE LANDS. BELKHODJA SUGGESTION, STATE 149392, THAT NATIONAL AGRICULTURAL STUDIES CENTER (CNEA) BE POINT OF CONTACT FOR ABC/OPIC/AID PROGRAM DOES NOT APPEAR TO MEET THE PROBLEM SINCE CNEA IS NOT AN ORGANIZATION WITH POWER TO COORDINATE GOT POLICY AROUND THE NEEDS OF AGRIBUSINESS VENTURES.

7. IMPLICATION FOR US AGRIBUSINESS IN TUNISIA: THE GOT CITES AGRICULTURE AS THE KEY SECTOR IN THE 5TH PLAN AND PLANS TO IMPROVE THIS SECTOR WITH US ASSISTANCE, CAPITAL AND TECHNICAL. US PRIVATE AGRIBUSINESS FIRMS ARE UNIQUELY QUALIFIED TO PROVIDE A PACKAGE OF TECHNICAL ASSISTANCE, TRAINING AND CAPITAL. HOWEVER, TO OBTAIN THIS US PRIVATE ASSISTANCE, TUNISIA MUST PROVIDE THE NECESSARY LIMITED OFFICIAL USE

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GOVERNMENTAL POLICY PACKAGE TO COMPLEMENT ITS NATURAL AND COMMERCIAL ADVANTAGES. THE ABC/OPIC/AID INVESTMENT MISSION PROGRAM SHOULD DETERMINE WHETHER A FORMULA CAN BE DEVELOPED WHICH WILL SECURE US PRIVATE SECTOR PARTICIPATION. THE SENSITIVITY OF AGRICULTURAL AND PARTICULARLY LAND POLICY REQUIRES THAT THE GOT REACH ITS OWN DECISIONS ON CONDITIONS FOR FOREIGN AGRIBUSINESS INVOLVEMENT IN TUNISIA. THERE WOULD BE RISK OF POLITICAL BACKLASH AND BEING IDENTIFIED AS THE "NEW COLONIALIST" IF THE US WERE TO GET TOO FAR OUT FRONT. WITH POLITICAL FIGURES ON EACH SIDE OF LAND POLICY QUESTIONS, WE CAN BEST ESCHEW ADVOCACY AND PLAY A LOW-KEY, INFORMATIVE AND RESPONSIVE ROLE.

8. RECOMMENDED US POSITION:

- A. SUPPORT THE ABC/OPIC/AID INVESTMENT MISSION PROGRAM REQUESTED BY THE GOT. MAINTAIN A FLEXIBLE APPROACH TO LEGAL AND POLICY REQUIREMENTS TO PERMIT EVOLUTION OF GOT POSITIONS AS SPECIFIC PROJECTS ARE DEVELOPED.
 - B. FORMULATE A MEANINGFUL AND CAPITAL AND TECHNICAL ASSISTANCE PROGRAM ON AGRIBUSINESS. IN ADDITION TO AGRICULTURAL EXPORT DEVELOPMENT AID'S CONTRIBUTION COULD ALSO BE DIRECTED TO ASSISTANCE TO IMPORT-SUBSTITUTIONS PROJECTS, FOR WHICH US PRIVATE SECTOR CAPITAL IS NOT LIKELY.
 - C. WHILE SUPPORTIVE OF US PRIVATE SECTOR ROLE IN TUNISIAN AGRIBUSINESS, USG SHOULD NOT APPEAR TO PRESSURE GOT FOR SUCH AN OUTCOME.
 - D. IF THE GOT DECIDES AGAINST FOREIGN INVESTMENT IN AGRICULTURE, AID SHOULD BE WILLING TO CONSIDER ALTERNATIVE MEANS OF TRANSFERRING US AGRIBUSINESS TECHNOLOGY TO TUNISIA.
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